

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified By The Former Executive Director

Our audit of the financial records of the Housing Authority of Asotin County revealed that at least \$13,503 in public funds was misappropriated by the former executive director (the director) during the period April 14, 1994, through March 31, 1996. The director resigned his employment with the housing authority on March 31, 1996, to pursue other employment opportunities. The misappropriation was discovered subsequent to his resignation. Accounting records were falsified in an attempt to conceal these losses from the board of commissioners. Federal funds were involved in this case. These funds were misappropriated as described below.

- a. The director retained custody of the housing authority's laptop computer when he resigned on March 31, 1996. While the computer was purchased for \$3,350, the director had it upgraded at a cost of \$680 prior to his resignation. This equipment was purchased with federal funds.
- b. The director received \$4,310 in mileage reimbursements for the use of his personal car while he was already using a housing authority vehicle for official business purposes. These reimbursements for mileage were claimed from April 1994 through March 1996. These expenditures were paid with federal funds.
- c. The director issued a \$500 check on August 30, 1995, and a \$2,200 check on October 19, 1995, made payable to himself for the sale of computer equipment to the housing authority. These checks were issued from the Local Fund checking account and were not federal funds. The director prepared a voucher on January 5, 1996, to reimburse the Local Fund with funds from the Comprehensive Improvement Program. The invoices he provided for this purchase were from a nonexistent company.
- d. The director issued a \$100 check on November 30, 1994, and a \$431 check on August 23, 1995, made payable to himself from the Advance Travel Fund checking account. There was no supporting documentation for these expenditures. These transactions were not submitted nor approved by the board of commissioners. These expenditures were paid with federal funds.
- e. The director took a personal vacation in conjunction with a July 1995 conference he attended in Las Vegas, Nevada. However, all travel expenses for the trip were paid by the housing authority. During this trip, he used the housing authority's vehicle and credit card for unallowable purchases for himself and a companion. He was also reimbursed \$588 for personal vehicle mileage which

was included in the amount shown in paragraph "b" above. While he was paid his full salary for the entire vacation period, he did not use any annual leave. The value of this unrecorded annual leave was \$710. Additional disallowed expenses for meals and entertainment associated with this trip totaled \$950.

- f. The director used the housing authority's vehicle and credit card for non-business related travel in June 1995. The motel charge was \$63 for one night.
- g. The director spent \$209 in housing authority funds for window coverings in July 1995 and for other remodeling supplies in March 1996. These purchases were for his own personal use. These expenditures were paid with federal funds.

When housing authority employees confronted the director about these irregular expenditures, he agreed to repay these funds to the housing authority. The director later told the employees that he had reimbursed the housing authority for the expenditures. The director resigned his employment with the housing authority on March 31, 1996. The director has not reimbursed the housing authority for these expenditures and they were not deducted from his final payroll check.

In addition to the misappropriated funds described above, our audit disclosed unsupported or questionably supported meal, motel, and mileage expenditures of \$3,748 made by the director. We also noted unallowable expenditures of \$350 made by the director for alcoholic beverages, movie rentals, cellular phone calls, etc.

RCW 40.16.020 states:

Injury to and misappropriation of record. Every officer who shall mutilate, destroy, conceal, erase, obliterate, or falsify any record or paper appertaining to the officer's office or who shall fraudulently appropriate to the officer's own use or to the use of another person, or secrete with intent to appropriate to such use, any money, evidence of debt or other property intrusted to the officer by virtue of the officer's office, shall be punished by imprisonment in a state correctional facility for not more than ten years or by a fine of not more than 5 thousand dollars, or by both.

RCW 42.20.060 states:

Falsely auditing and paying claims. Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or, directly or indirectly, consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

Article XI, Section 14, *Constitution of the State of Washington* states:

Private use of public funds prohibited. The making of profit out of county, city, town, or other public money, or using the same for any purpose not authorized by law, by any officer having the possession or

control thereof, shall be a felony, and shall be prosecuted and punished as prescribed by law.

RCW 42.23.070 states in part:

Prohibited acts. (Effective January 1, 1995.) (1) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others

Office of Management and Budget Circular A-87 requires federal program costs to be "necessary and reasonable for proper and efficient performance and administration of Federal awards" and "authorized or not prohibited under State or local laws or regulations." Section 1120, C 2, states:

A cost is considered reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type of generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award . . .
- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal government.

Circular A-87, Attachment B, discusses selected items of cost. It states in part:

4. Alcoholic beverages. Costs of alcoholic beverages are unallowable.
18. Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

US Department of Housing and Urban Development (HUD), *Low-Rent Housing Accounting Handbook* 7510.1, Chapter 4, page 9 states in part:

1. Travel Vouchers. Vouchers submitted for reimbursement of travel expenses shall state the purpose of the trip, per diem rate, the date and hour of departure, the date and hour of arrival, and the mode of travel, and shall set forth in detail the

expenses for which reimbursement is being sought. When reimbursement for use of a private automobile is requested on a mileage basis, the voucher shall show the points of travel (origin and destination) and mileage meter readings. When reimbursement is requested on an actual expense basis, receipted bills shall be furnished whenever such bills are customarily received. Travel expense reimbursement vouchers shall conform to the established travel regulations and shall contain a copy of or reference to the authorization to perform the travel.

The following internal control weakness allowed the director to conceal these losses without being detected by housing authority management.

- There was an inadequate segregation of duties and limited supervisory review of the director's duties.
- The director completely controlled the Advance Travel Fund and Local Fund checking accounts. The check registers were kept in a locked drawer in his desk and he had the only key to the drawer.
- The director's travel expense vouchers were not reviewed or approved by a supervisor. The director prepared, approved, and issued checks to himself to process travel expense reimbursements.
- The director prepared and approved the payroll time sheets and maintained his own leave balances.

We recommend the Housing Authority of Asotin County seek recovery of the misappropriated \$13,503 and related audit/investigation costs from the former executive director and their insurance bonding company, as appropriate. We further recommend the Washington State Office of Attorney General and the Asotin County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Insurance coverage for housing authority employees is as follows:

Insurer:	Housing Authority Risk Retention Pool
Type of Policy:	Fidelity Coverage (Employee Dishonesty)
Policy Number:	007-PLEAF
Dollar Amount:	\$100,000
Period of Coverage:	Continuous for audit period

We also recommend the Housing Authority of Asotin County review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

2. Public Funds Were Misappropriated By The Former Executive Director

Our audit of the financial records of the Housing Authority of Asotin County revealed that at least \$6,437.17 in public funds was misappropriated by the former executive director during the period November 22, 1995, through January 28, 1996. Federal funds were involved in this case. These funds were misappropriated as described below.

The director received dual compensation for his regular salary from the housing authority and for disability benefits from the Washington State Department of Labor and Industries (L&I). He filed an injury claim with L&I on November 22, 1995, for a work-related injury which occurred on November 15, 1995. He personally prepared the injury claim and used the name and signature stamp of another employee, without the other employee's knowledge, to complete Section 58 through 86 "Employer Information" of the F242-130-000(7/92) form. This section of the form represents the certification by the entity that an injury has occurred and it is required to be completed by someone other than the injured worker.

L&I paid \$5,231.92 in disability benefits to the director for the period November 22, 1995, through January 28, 1996, on claim number N588160. The housing authority also paid \$9,144.77 to the director for his regular salary during this same period of time. Only \$2,707.60 of that amount was allowable for payment to the director from housing authority funds according to calculations by L&I personnel. Thus, the director inappropriately received \$6,437.17 in compensation from the housing authority. In addition, the director did not remit any of the disability benefits he received from L&I to the housing authority as required by state law.

During the claim period, the director reportedly told housing authority officials and staff he would be working at home rather than at the office. However, he attended a housing authority conference in Seattle, Washington, during the period December 11-15, 1995, and was reimbursed \$292.50 in mileage for this travel.

The director circumvented housing authority policies and procedures. He handled all communications with L&I, approved his own payroll time sheets, signed and issued payroll checks to himself, and submitted the original claim to L&I using the signature stamp of another employee to validate the claim. As a result, the board of commissioners was not aware that the director was receiving dual compensation from L&I and the housing authority.

Title 51, *Revised Code of Washington* (RCW) provides authority and conditions for payment for disability benefits to injured workers by the State of Washington Department of Labor and Industries.

RCW 51.32.090 states in part:

Temporary total disability) Return to available work) When employer continues wages) Limitations. (1) When the total disability is only temporary, the schedule of payments contained in RCW 51.32.060 (1) and (2) shall apply, so long as the disability continues . . . (3)(a) As soon as recovery is so complete that the present earning power of the worker, at any kind of work, is restored to that existing at the time of the occurrence of the injury, the payments shall cease . . . (6) Should a worker suffer a temporary total disability and should his or her employer at the time of the injury continue to pay him or her the wages which he or she was earning at the time of such injury, such

injured worker shall not receive any payment provided in subsection (1) of this section during the period his or her employer shall so pay such wages.

RCW 42.20.060 states:

Falsely auditing and paying claims. Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or, directly or indirectly, consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

We recommend the Housing Authority of Asotin County seek recovery of the misappropriated \$6,437.17 from the former executive director and their insurance bonding company, as appropriate. We further recommend the Washington State Office of Attorney General and the Asotin County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Insurance coverage for housing authority employees is as follows:

Insurer:	Housing Authority Risk Retention Pool
Type of Policy:	Fidelity Coverage (Employee Dishonesty)
Policy Number:	007-PLEAF
Dollar Amount:	\$100,000
Period of Coverage:	Continuous for audit period

3. Internal Controls Over Fixed Assets Should Be Improved

In prior audits, we have recommended that authority officials develop a comprehensive system of accounting for general fixed assets and improve its detailed fixed asset records. The following improvements were noted during the prior audit:

- The detail information on individual assets by historical cost and location was entered into the general fixed asset subsidiary ledger.

Housing authority officials, while beginning the process, have not yet completed the system to provide adequate control over general fixed assets. Currently, the following areas need improvement:

- a. A physical inventory needs to be done.
- b. The detail information of assets purchased and replaced during the audit period through the current period needs to be entered into the general fixed asset subsidiary ledger.
- c. The subsidiary ledger should be reconciled to the general ledger control account.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, issued by the Office of Management and Budget, March 1988, requires in Subpart C, Section __.32(d)(1).

Property records must be maintained that include a description of the property, serial number or other identification number, the source of the property, who holds the title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

The inadequate fixed asset accounting system is attributed to insufficient resources being allocated to remedy these ongoing internal control deficiencies.

We again recommend that accounting controls over fixed assets be improved.